J B Chemicals and Pharmaceuticals Limited

Q1 FY '24 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '24 Earnings Conference Call of J.B. Pharma. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes.

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I now hand the conference over to Mr. Jason D'Souza, Executive Vice President, J.B. Pharma. Thank you, and over to you, sir.

Jason D'Souza: Thank you, Nirav. Welcome to the earnings call of J.B. Pharma. We have with us today, Nikhil Chopra, CEO and Whole-time Director; Kunal Khanna, President Operations; and Lakshay Kataria, Chief Financial Officer at J.B. Chemicals & Pharmaceuticals Limited.

Before we begin, I would like to state that some of the statements today perception may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q1 FY '24 investor presentation that has been sent to you earlier.

I would like to hand over the floor to Mr. Nikhil Chopra to begin the proceedings of the call for his opening comments, after which Mr. Lakshay Kataria will address the financial highlights. Over to you, sir.

Nikhil Chopra: Thank you, Jason, and a warm welcome to all of you. Thank you for joining us on the first quarter call to discuss J.B. Pharma's performance. I will begin with the operating and strategic highlights and we will be followed by our CFO, Mr. Lakshay Kataria. He will be sharing the financial highlights and his thoughts on the performance. Subsequently to our comments, the forum will be open for the questions, and we'll be glad to address those.

Dear friends quarter 1 has marked a continuation of the trends set in the previous year. Growth across both domestic and international businesses have been good. To share some numbers, in quarter 1, we reported a revenue of INR896 crore, marking a growth of 14%. The key aspect being debt, we crossed a milestone of INR400 crore in quarterly run rate in the international operations at INR407 crore, growing at 11% year-over-year. This followed good traction in our CDMO offices.

Domestic business delivered 17% growth to touch INR489 crore on the back of impressive growth in the acquired and chronic portfolio, where most of these brands have completed 1 full year as a part of our J.B. portfolio. On the chronic side, J.B. continues to outpace the chronic IPM by a wide margin. Certain parts of exit portfolio saw weaker seasonal demand income.

Turning the discussion to our branded portfolio, we have made good gains in the track bands, which you would have seen in our investor presentation. As per IQVIA MAT June 2023, J.B. showed a growth of 20.7%, contrasting with 10.6% in the IP in the Indian pharma market growth. Our biggest brand has on have grown even bigger.

We are pleased at how the market has responded to Azmarda our heart failure pill where we had reduced the pricing by 50% in December 2022 before the loss of exclusivity. The team has been particular about a life cycle management of existing products while successfully introducing new offerings. Our task is simple to make these star brands even bigger. And this is basically working both in our own as well as acquired portfolio.

The recent acquisition that is Razel that is Rosuvastatin portfolio is gaining good traction and its monthly sales have jumped from a monthly average of INR5.5 crore in the current year FY '22, it is prior to us acquiring the ban to INR6.7 crore in June 2023 as per IQVIA.

Our portfolio in Cardiac is competed with every product registering a good performance. At this junction, I must say, the acute segment has witnessed several challenges due to late monsoon, while the acute business performance was muted during the quarter, we hope the uptick will increase in the second quarter.

Moving on to our international business. We have seen healthy numbers. Our international formulations have grown at 12% to INR275 crore, a strong growth came in CDMO, which has been continued and businesses achieved to 20% growth in the quarter. However, we will need to closely watch the upcoming winter season as that will drive the secondary demand probably for quarter 3 and quarter 4.

The prevailing geopolitical issues continue to caste uncertainty in the markets that we operate, translating into impacted demand in some of the cases and currency devaluation in some of the markets. The silver lining here is that logistics and trade costs have stabilized and we have witnessed some benefits on margins on that account. Operating margins have input for the quarter on account of better business mix, increased efficiency, in-sourcing and higher volumes.

The South Africa business is going through a transformation. We have made choices with respect to certain product portfolio in public businesses. This is impacting growth in our international formulation business as overall. Our endeavor remains to drive India as well as CDMO business combined to contribute 75% to 80% to our revenues, which we have been talking in previously in our conference call.

Both these businesses give us high returns and operate at good margins, which oral helps us to reinvest in the business. The path forward is predicted on driving our core strategies in both domestic as well as international markets. Domestic will see a first on big brands and active product management. We have a sharp focus on CDMO business and scale-up in our ROW market, is in a highlights in our intentional operations.

As we grow, we are making sure that cost savings are put on priority wherever possible so that we are more resilient to operate in challenging environment.

With this, I will hand over to Lakshay Kataria to walk through in detail about our financial performance for the quarter. Over to you, Lakshay.

Lakshay Kataria: Thank you, Nikhil. A very good afternoon, everyone, and welcome to our earnings call. I will now take you through the financial highlights of quarter 1 FY '24. Revenues for the quarter were at INR896 crore, representing an increase of 14% year-on-year. The domestic-to-international business mix was at 55% to 45%, respectively. The domestic business achieved revenues of INR489 crore with a growth of 17%.

As Nikhil mentioned, acquired brands performed well and continue to deliver healthy returns. The international business demonstrated 11% year-on-year growth, generating revenues of INR407 crore. This was driven by the CDMO business, which grew by 19% year-on-year, and the international formulation business improving by 12% year-on-year. Reduction in logistics and freight costs have positively impacted our operating margins for this business. We do see some softness on the ruble and ZAR from a currency perspective, which has impacted our reported performance for the quarter.

Gross margins for the quarter stood at 65.4%, expanding 270 bps from last year's same quarter. In the quarter, our operating EBITDA, excluding ESOP cost was at INR243 crore, reflecting a 28% year-on-year growth. The margins were at 27.1%, an expansion of 290 bps as compared to 24.2% in the same quarter last year.

On the expenses side, the total employee costs, including ESOP, increased by 11% to INR149 crore. Employee cost as a percentage to sales improved to 16.6% from 17.1% reflecting operational efficiency. Non-cash ESOP cost was at 5% of the reported EBITDA versus 10% year-on-year.

Our other expenses increased by 11% to INR205 crore, and as a percentage to sales improved by about 100 bps. Depreciation included in amortization charge of INR14 crore on account of acquired brands. Profit after tax was at INR142 crore, which increased 35% year-on-year. We continue to focus on working capital efficiency and cash generation from the business.

Happy to report that our net debt as of 30 June came down to INR102 crore from INR266 crore in the prior quarter of 31st March 2023. While our operating margins have improved significantly in Q1 FY '24, we reiterated our guidance for operating margins between 25% to 27%. On the balance sheet side, we continue to focus on managing our working capital efficiently and improving our ROCE.

Our operating cash flow continues to remain healthy, and we expect to become cash positive in FY '23, '24. As we continue on this journey of growth and transformation, we remain confident on a positive outlook through opportunities for the company and providing value to all our stakeholders.

That concludes my opening remarks, and I now request the operator to open the question to the forum for Q&A session. Thank you.

Moderator: Thank you very much. We now begin the question-and-answer question. First question is from the line of Rahul Jeewani from IIFL.

Rahul: Jeewani: Yes. Sir, on this AU business, have we been able to add any new customers or new product technologies, which we have found about in the past? And what is the outlook for this business for the rest of the year given that you indicated that we need to watch out for how the winter season place out?

Nikhil Chopra: So, as we have been talking Rahul, in terms of about the partner, it's work in progress. We'll be able to add more color probably in coming quarters. There are some developments which have happened. And as I spoke earlier, we have healthy order book for quarter 2. September, probably mid-September, we'll be able to at least get some inputs from our partners in terms of how the winter season is setting in. That is where we stand.

Also what we are trying to do that we are looking at same partners, newer geographies we are trying to get in. That has happened, which is overall helping us. If you look at in terms of what we have demonstrated overall in quarter 1, close to INR120 crore delivery.

So, that was the initial case if you are working with that with the existing partners new geographies for the portfolio that we have that, that has helped us and that is helping us for the quarter 2. But new products, new partners, still, I think we'll be able to add more color probably next 3 to 4 months.

Rahul: Jeewani: Sure sir, and are you disclosing the new geographies which you have been able to add. So are these Southeast Asian market places? I was asking regarding these new geographies which you have been able to add, are you disclosing the names these new geographies?

Kunal Khanna: Rahul, we cannot disclose specific geographies, it's confidential information, but it's part of the regions which we already predominantly operate in.

Rahul: Jeewani: Sure, sir. And then on the domestic business, our attraction on the acquired portfolio has been good. So can you quantify in terms of how the trends have been with respect to Azmarda? Because in last quarter, you had indicated that we had seen 25% higher volumes as compared to pre-expiry volumes. So, how are the volume trends sustaining on Azmarda? And what has led to the strong growth in Razel as well?

Kunal Khanna: So on the Azmarda front, post immediately, there was a ramp-up in the volume and this ramp-up you are seeing in the overall R&D market and for our product as well. Having said that, the market is also stabilizing a bit right now.

And one cannot expect that the sequential growth of 20%, 25% month-on-month will continue. But our overall thesis on the overall market opportunity attractiveness and our play of having an established brand like Azmarda continues. The market is very, very attractive. arni adoption across cardiologists and physicians is seeing a massive uptick, and we continue to be extremely bullish on this particular segment.

Nikhil Chopra: And on Razel what you are asking is overall, the focus is more on adding the prescribers. Because overall, when you see the fabric of the brand, it was more physician-prescribed product when it was from the company – we bring a company close to cardiologist. We are looking at how do we get more and more cardiologist prescribers for Rosuvastatin combination.

So, that work gives in progress, and we are more focusing on secondary demand, generating more prescriptions. So there is what Rahul we have been doing for more and more number of portfolios. And we are confident of at least growing this brand at double digit as compared to the brand has been flat or growth for the last 3 years CAGR where we stand from Razel portfolio.

Rahul: Jeewani: Sure, sir. So double-digit growth on this brand versus flat growth over the past 3 years?

Nikhil Chopra: Yes.

Rahul: Jeewani: Sure, sir. And last question before I come back in the queue. So, our API business sales was sluggish this quarter. So there was a 40% Y-o-Y decline. So anything to call out for in terms of what led to muted sales on the API business?

Kunal Khanna: Nothing much. It's just a postponement of some orders with one of our key customers. As a business also, we have traditionally seen that H2 tends to be much, much higher. We will be ensuring that we cover a major part of the muted trend which we saw in Q1 over second half of the year.

Rahul: Jeewani: Okay. Sure, sir.

Moderator: Next question is from the line of Sriraam from BNP Paribas

Sriraam: Yes. So one question on the gross margin. I mean, it has seen decent improvement this quarter, of course, because of the raw material cost softening and all. So how should we look at this number going forward? I mean is it likely to sustain or may improve further from here on?

Lakshay Kataria: So we look. You want to be closer to the range of 55 to 60, that's the number we're looking at for. And basically, this is the improvement that you're seeing in margins is coming on account of three drivers. One is the business mix, given the performance in chronic, the focus on private market in South Africa. That's driving the margins healthier. Second, we have driven sourcing initiatives on Azmarda and rest parts of our portfolio. So that's a contributing to gross margin. And thirdly, our inflation is a little bit soft. So, that's also rating us from the perspective of gross margins. And I think we should be able to be in the range of 65% to 66%.

Sriraam: Okay. Got it. So sir, any reason to maintain the guidance of 25% to 27% EBITDA margin because assuming that gross margin remains around 65% to 66% and our endeavours have been to increase the chronic contribution as well as in the South Africa market also to focus on the private market. And we are trending higher than the range as of now. Can there be a positive surprise to that or how should we look at that?

Nikhil Chopra: See, overall, the guidance that we have been given and what we could see this quarter is one of the best quarters that we to deliver mid-teens growth and EBITDA margin was 27%. Now that is why we are giving a range. With gross margin, we are fortunate at all the 3 aspects of what improvement that we wanted to see has worked in our favor in this quarter.

And as you know, the markets are so dynamic that the cost of intermediates and APIs just shoot up and you conceptually for the business continuity plan for securing partnerships with some of the big partners that we work for being a responsible company in India for making the products available throughout the year, you have to abide by the regulations that you are working in the environment. So, this is the range that we have given.

We'll be more than happy to be on the higher side of the range. But all the three aspects have worked for us in terms of top line and in terms of mix, in terms of efficiency, that is where we stand as a company. So our guidance continues to be between 25% to 27% of EBITDA margin. And for India business, what we have been talking that we should be growing better than the market. If you see today, also deals, the higher figures have come for the month of July, when the market is showing 6% growth and J.B. continues to grow at 11%. We are the fastest-growing company in top 25.

This for the month of July, we are now 22nd rank company in the market. And that is what we will demonstrate over a period of time. And that is what we demonstrated over the last now 8 quarters, 10 quarters and for international market, we should grow at double digit. That is what overall the guidance that we would like to keep for the rest of the year.

Sriraam: Sure. Very helpful. Thank you so much.

Moderator: Thank you. Next question is from the line of Abdul Kadir Poonawala from ICICI Securities. Please go ahead.

Abdul Kadir Poonawala: My first question is on the India business. So we called out that Razel is having INR6.5 crore kind of a monthly run rate. So, if you strip that out, the base business should be growing at close to 12%, 13%, but that, as you mentioned, would have some impact of the price reduction what you have taken in Azmarda. So sir, adjusting to that, could you please help us understand what would be the core brands or the earlier brands growth rate in terms of your base business?

Nikhil Chopra: So, we don't get into specific growth business of brand, but I think as IMS reports, we have sharing our investor presentation, but let me talk about overall the way we look at business. Our chronic portfolio continues to grow at mid-teen. Our entire growth in India probably has been backed by the entire performers that we have demonstrated for our chronic portfolio. As earlier also, Mr. Kadir we have been commenting on the contribution that we want to take up on chronic part of the business, close to 60%, which is today close to around 54% within India business.

Unfortunately, in quarter 1, our portfolio in acute part of the business is more gastrointestinal dependence where we have not seen that uptake. That is why my Rantac, Metrogyl and Sporlac have not gone at the base that we were expecting. But the entire hard work that we are trying to do more looking at hypertension, heart failure, lipid lowering products. That overall has helped us to demonstrate a 17% growth for the quarter, and that will be the agenda going ahead.

Abdul Kadir Poonawala: Sure, sir. And my second one is coming the M&A strategy. So I know, clearly, when we have the visibility that we would be coming [inaudible 0:23:00] cash this year. So going ahead, what would be the focus area, I mean, would it be to acquire the right kind of brands, which should sit in the current portfolio or to venture out into some therapies, which would be more inclined to us?

Nikhil Chopra: So, agenda M&A continues to remain the same. We continue to evaluate assets. We'll continue to look at in terms of what value will suit us in terms of being on the buying side. What we look at three aspects, four aspects. We look at if we can grow the asset at a better pace as compared to where it stands today or we can improve gross margins of the business that we are acquiring by better sourcing or looking at things from in-house manufacturing of API. And from a perspective, how much synergies that we can build in in consume therapy areas where we want to play and win. So, those are the aspects that we have kept in mind for M&A, and we continue to be evaluate assets. I am not running away that we are not in that process. We continue to evaluate assets and at the right time, if we see that any opportunities building up, we'll be more than happy to share with all of you at that time that is what I can comment.

Abdul Kadir Poonawala: Sure sir. Thank you and wish you all the best.

Nikhil Chopra: Thank you.

Moderator: Thank you. Next question is from the line of Tausif from BNP Paribas. Please go ahead.

Tausif: Sir thanks for the opportunity and congrats on a good set of numbers once again, one question on domestic business. What would have been your market share Azmarda in this quarter still at the range of 18% or have you seen any improvement over there?

Kunal Khanna: So we are trending in the region of 16% to 18%. That's correct.

Tausif: Okay, thanks.

Moderator: Thank you. Next question is from the line of Alka Katiyar from Baroda BNP Paribas. Please go ahead.

Alka Katiyar: So sir, just wanted to know how is the export formulation business being in the Russia and how the growth been and also, if you can share some color on the South Africa business?

Kunal Khanna: On the Russia front, despite some of the uncertainties in the market, we have been able to hold demand. And again, given our portfolio mix, we actually see peak happening post-September, October only. That's when the season is. As Lakshay mentioned, that there is a slight concern on the forex part. But apart from that, for both Russia and CIS region, despite some of the uncertainties, we would say that the secondary demand is still holding up.

We just need to be much more cautious about the forex part. On the South Africa front I think we have been very clear, and Nikhil also mentioned in his commentary, the focus going forward clearly is how do we improve the margin profile of the business and therefore, the entire trust on driving better private mix that continues to remain our margins.

Alka Katiyar: Sure. And the number of launches will continue to remain 2 to 3?

Kunal Khanna: For South Africa, we will certainly be slightly more aggressive in terms of launches because we want to improve our private mix there. So, certainly, that's part of our pipeline strategy. For Russia we will be more on the conservative side.

Alka Katiyar: Okay. And lastly, on the U.S. front how have we been going ahead in terms of launches?

Kunal Khanna: Last year, we did four filings and the next 12 months to 14 months is about ensuring that the approval for the filing come through. In addition to that, we'll be maintaining a run rate of two to three filings per year.

Alka Katiyar: Sure. Thank you. And just quickly on the CMO segment. So, are we still in the process of launching other lozenges segment like motion sickness and all?

Nikhil Chopra: So, for motion sickness, for sleep orders, anti-inflammatory lozenges those are some of the lozenges immunity. Those are some of the products and more expanding portfolio in the world of couch and cold. Those all things are working products. See what I've been telling in the world of CDMO, the entire business, adding new partners, adding new products, has it got its own gestation period.

But we are in a very sweet spot in terms of what we have got very good partners, and the relationship has been here for the last now 2 decades plus. And now with a capacity close to 2 billion lozenges that we can manufacture annually. So, that overall helps us in terms of sustaining the business, for existing products, looking at doing business with the existing partners in new geographies and also looking at adding more partners and adding more products in the existing partners.

These all things we are trying to do. And business touchwood has been close to INR120 crore for the quarter. What I can say at this moment of time that our order book for quarter 2 is also healthy. Equally, we are waiting for some indications from our partners that should come in probably in the month of September, which should help us to give more color on this portfolio.

Also existing portfolio, for example, we last year could conclude our relationship with Reckitt where we had launched where we couldn't manufacture Strepsils for them, the life cycle management where the team at J.B and Reckitt Benckiser and now we are able to extend that partnership to Strepsils immune.

So, those were things continue to happen in terms of life cycle management, new geographies, existing product lifecycle management that is helping us where we stand from our CDMO business. I think this helps overall because many of our colleagues also will be having questions here. And so where we are in the world of CDMO. So this is what I wanted to share.

Alka Katiyar: Sure. Thank you. That's answer my question.

Moderator: Thank you. Next question is from the line of Girish Bakhru from OrbiMed. Please go ahead.

Girish Bakhru: Actually, first question is on clarification Azmarda. You were talking about month-on-month growth still being very strong. But I'm just saying the data Q-o-Q, has the volumes come down a bit, I mean, is the market resetting from that perspective?

Kunal Khanna: The overall markets what we were maintaining was the overall market when the price was reduced was at an inflection point. And therefore, what you saw sequentially at that point, the growth was much more rapid. Now to maintain that same momentum going forward is not at the same rate is something which may not be possible to sustain. But overall, the market still will continue to grow.

So one cannot expect that the volumes, which grew in March and April at almost 30%, 35% or month-by-month, that month-on-month increase in volumes will continue. That's what we are maintaining.

Girish Bakhru: And when you see the market right now, let's say, it's maybe doing about 18 million, 20 million units per month. This was about 10 million before the expiry. So, do you think still that this can potentially double-triple in the next two years, three years?

Kunal Khanna: For sure.

Girish Bakhru: So there is a lot of under-diagnosis, which is yet to get covered in the market.

Kunal Khanna: We have always maintained that and we are going in thesis for this brand. The sharp price, which you saw with the price reduction itself is a reflection of what the market opportunity is really. And whatever change you have seen over the past 5 months to 6 months has not happened because systemically the market has changed. So, suddenly, overnight, the diagnosis rate did not increase. It was only the affordability factor.

And over the next three years to four years, when you see some of the systemic changes happening in the market, which are more related to therapy shaping diagnosis and all, you will certainly see that the market will continue to grow. And that's where we are taking the lead. So, even Nikhil mentioned that our main focus is how do we really influence therapy-shaping initiatives, heart failure clinics, to ensure more diagnosis, that's going to be a thrust for the next three years to four years.

Girish Bakhru: That's very helpful. And the second question on sporlac, I mean, last time, of course, we indicated that probably market share is about 10% now, about INR90 crore sales. How do you see this going and is it going to be the leading brand within the probiotics?

Nikhil Chopra: So, obviously for us it is a leading brand in probiotics because it is the biggest brand that we have got. So, when we acquired this was close to INR60 crore, INR65 crore. Now we stand around close to INR90 crore and likely so the market share is 10%. And what has helped us in terms of looking at the entire strength of J.B. as a company from a distribution perspective, from synergy and prescriptions from life cycle management.

All those has helped us to scale up this brand to closer INR90 crore, the brand overall the portfolio Sporlac as a portfolio for us because there are half a dozen brands continue to be grow at mid teens. And which will continue to happen and overall, probably quarter-to-quarter or for this year-to-year, you should see us only gaining market share.

Girish Bakhru: So [inaudible 0:33:05] mentioning its leading brand within the probiotic market like is it bigger than Vizylac right now or…

Kunal Khanna: In terms of prescriptions and volumes, we are much bigger. But traditionally, this has been a brand which has been always been much more affordable in the probiotic space. So therefore, value-wise, there is a difference of one or two ranks.

Girish Bakhru: And among these top five brands, six brands which are in the probiotics, would you say most are covered by J.B. and would be the mix, let's say, Rx versus OTC or most of them?

Kunal Khanna: Just to clarify, we don't operate in the OTC segment. There may be repeat purchases of probiotics, but that's not our trust area. The other three to four players also are operating, every player has a different stream, and we also have our own stream. Now we have done some life cycle management initiatives on the strain, and we'll continue to do that.

But at the end of the day, across these five brands, there may be overlap of one or two brands where the strain is common. Otherwise, there are in different strains and these are prescription brands. We are not talking about OTC category.

Girish Bakhru: And more would be a GP right irrespective of the strain?

Nikhil Chopra: It's a combination of GP, paediatrician. It all depends upon the strain, GP, paediatrician, gastro. We have probiotic where we go and promote to Nephrologist also one of the brand, which we have Lobun, where we are it's a INR25 crore- INR30 crore brand, which is basically responsible for halting the progress of chronic kidney disease, which is a INR30 crore brand. So there are depending upon the strain, the content, depending upon the indication that is how probiotic as a product behaves in the market.

Girish Bakhru: Understood. Thank you. Very helpful. Thank you.

Moderator: Thank you. Next question is from the line of Nitin Gosar from BOI Mutual Fund, please go ahead.

Nitin Gosar: Hi sir, I wanted to understand the Russia piece. The broad understanding was over the last two years, we would have gained a bit of more traction assuming some of the players or the global players would have exited the market. A, wanted to understand the size of business for us today, the share carries. And B, how do we hedge the ruble piece that's been pretty volatile over the last three years, four years?

Kunal Khanna: So we will not certainly disclose segment-wise revenues. But the business, still, last year also grew at a healthy rate of mid-teens. Of course, the currency played a very important role that time. We have always maintained that, we are adopting a cautious approach in this market, ensuring that whatever we have on the ground, we completely optimize those resources on the ground. Don't get into any investment mode, but get the best out of what we have.

And we have been fairly successful in doing that. Yes, last six months particularly, the currency volatility is slightly high. We are keeping a closed watch. We've kind of hedged some part of it, but yes, we'll have to wait and watch on how the scenario unfolds. We cannot completely undermine the forex risk. However, we have a very strong hedging policy, and our exposure to that extent is not significant.

Nitin Gosar: Okay. And would it be fair to assume that the exposure we had two years back would be similar to that level, so would it have gone up, reduced, anything that you can throw some colour?

Lakshay Kataria: We've always been cautious on ruble hedging. So even when in 2022, the war situation happened, it did not significantly impact us. So we continue to maintain a conservative policy on hedging and we minimize the exposure.

Nitin Gosar: Fair enough, sir. Thank you.

Moderator: Thank you. Next question is from Harsh Bhatia from Bandhan Asset Management. Please go ahead.

Harsh Bhatia: Yes, thank you. Good afternoon. So can you help us understand a little bit more on what's happening for the Sanzyme portfolio, particularly with regards to Pubergen and Gynogen, because that is the conversation that you are having through IVF Linux, right? So can you throw some more color on that part?

Nikhil Chopra: So that business is closed, that business would be close to 20% of the business that we acquired. Fortunately our teams are able to cover close to 1,500 infertility clinics in the country and both the products as you mentioned Pubergen and Gynogen, are well recognized and well accepted and trusted brands from the IV infertility specialist.

So we continue to leverage that strength of Sanzyme as a company and we continue to source their products from Sanzyme. And that is a continuity plan. Overall, if you look at the entire world of infertility, the demand is only going up. So we also are growing that portfolio at mid-teens. That is what we can say. That is what we can come out of this.

Nikhil Chopra: We organically at JB also have launched some supportive therapies for infertility, which is helping overall teams to go with a wider portfolio.

Harsh Bhatia: Sure, and what would be the volume run rate for Rantac right now, for the first quarter of this year, versus the first quarter of last year, financial year?

Nikhil Chopra: We would be flat on volumes in terms of and that has been shared here in the investor presentation deck. It would be around INR15 crore to INR16 crore. That is where we stand as a brand monthly.

Kunal Khanna: 45 to 50 lakh units, that's the broad range, which we are operating in. Whenever the season comes up, it goes up to almost 65 lakhs to 70 lakh in terms of volumes.

Harsh Bhatia: Okay, and lastly, the broader price to volume split for the India market for the first quarter, the 18% growth, can you just provide the split?

Nikhil Chopra: So if you look at volumes, close to high single digit, that is where we stand. Price is close to 5% to 6% and new product contribution is close to 2% to 3%.

Harsh Bhatia: Okay, sir, thank you.

Nikhil Chopra: There is market is probably flat or negative in volume for first four months- five months.

Harsh Bhatia: Sure sir, thank you.

Moderator: Thank you. Next question is from the land of Maulik from Anand Rathi, please go ahead.

Maulik: Hi sir, good afternoon. I just wanted to know, have we increased our number of MRs and what is the MR productivity now in terms of the organic business also, and acquired business also?

Nikhil Chopra: So I will talk to you in totality, in terms of the productivity. Last year, our productivity was around close to INR6.2 lakhs. And this year, with 50, 70 people that we would have added in some of the portfolios, today the total number of MR count is close to around 2,200. Our productivity plan that we have put in place is, the aspiration is close to INR7 lakhs. That is where we stand.

Maulik: Okay. And the second question is, sir, are we more, I understand the go-to-market strategy which we have, so are we more focused and penetrated in the Tier 2 to Tier 6 towns and cities or more in the metro city? Can you throw some light on understanding on it?

Nikhil Chopra: This was the scenario, a couple of years ago. But if you look at today, the scenario would have changed, tilting contribution increasing to metro and Tier 1 part of the country. Because overall when you look at the heart failure product, the result portfolio, overall what launches we have done, we are looking at how do you improve your contribution of prescription from the specialist as compared to generalist.

We can't run away from generalist because with Rantac, Metrogyl, Sporlac, those are mass brands, Nicardia. But you are right, it's a ball park figure, it is not in black and white. Our contribution was close to 65% maybe from the Tier 2, Tier 3 parts of the country and 35% from the metro and Tier 1. But that was two years ago. But today, it will be 40% plus from metro and Tire 1 part of the country. And it will be progressively it will only increase. That is where we stand.

Maulik: Okay, sir. Thank you so much.

Moderator: Thank you. Next question is from the line of Dhawal from Jefferies India. Please go ahead.

Dhawal: Hi, thank you for taking my question. First one, just a clarification on the EBITDA margin guidance of 25% to 27%. Is it operating EBITDA or is it after the guidance?

Nikhil Chopra: Operating EBITDA.

Dhawal: Okay. Thank you. Second one, just wanted to know on our M&A appetite, so do we have any absolute number that we can go up to or is there any leverage number that we have in mind and that determines, what kind of M&A we could potentially go up to?

Nikhil Chopra: So we can go up to 1.5% of our EBITDA absolute. That is what the threshold we have kept, but it is not hard and fast that we have to go to that level. See, it all depends upon the quality of asset. And if we as a team think that we can turn around and what you have seen, what we have been talking about, whether it is Sanzyme or whether it is for heart failure pill or what we want to try to do with Razel, if that confidence we as a team have, then we will look at in terms of how much maximum we can go to this threshold that we have kept for ourselves.

That is where, and by the way, there is no pressure on us to do any M&A just for the sake of doing an acquisition and rightly the way JB as a company is placed being a dominant player in the world of hypertension, heart failure, we have got a good product, progressive product in the form of secular vial satin, we have got a product for entire range of rosuvastatin for lipid lowering agent.

We are into probiotic market, we are into infertility market. We are now a good dominant player in the world of pediatrics. We have got a good range of products portfolio in the field of respiratory. So we have got enough in terms of what we can, how at least we can grow the business in terms of what I spoke earlier, our productivity can go up from INR6.2 lakhs to INR7 lakhs.

But if there is any good asset available, we do not like to miss on the right valuation that will suit us in terms of turning around the asset and at least looking at the payback period close to six years.

Dhawal: Okay, thank you. Just one last one from my side. What is our current spend on R&D in the US and what's the factor that determines it? Will it be the number of filings that we are fixated and that will determine the R&D? Or is it you have some kind of revenue target or it's the investment in the R&D that will be the limiting factor. So how do you decide on the investments on the US side and what are the current R&D spends?

Nikhil Chopra: Our R&D spends are sub 2%, first of all. There's no determination as compared to more than US. What earlier was spoken is the progressive work that we are doing in terms of getting into new therapeutic segments in the world of CDMO with Lozenges. That also is a part of our R&D spend.

Second, what was spoken earlier that we continue to file 3 to 4 NDAs every year. And third is the BE filings that we have been doing. Last year, we could file around close to 10 products in our ROW market, that is rest of the world, BGX market, which is with the business today is close to$ 40 million, that is our presence in Sub Sahara Africa, Latin America, South East Asia, Middle East and this entire model of business is distributed model.

So last year we could file 10 products, this year also we want to file 10 more products. So that is a part of our R&D investment. It is a combination of the developmental work that we do for CDMO, the filing that we do for ROW market and what we are trying to do in terms of filing 3 to 4 ANDAS in US every year. So our R&D spend earlier was sub 1% when we came in. Today, at least, it is close to 2%. Progressively, it will go up. That is where we stand as a company.

Dhawal: Okay. And just one last one. You made a press release that you formed a Philippines JV. So can you throw some light on that market and what's the breakup in terms of whether it's branded and what proportion of the market is branded, what's the growth rate of the market and how we are seeing the scale up that we will be able to do going forward?

Lakshay Kataria: So, we have been present in this market historically through our distributors, so we have not had a direct presence. The intent is to get into a direct presence and the opportunity lies both on the institutional side and the B2C side. So that's really the opportunity we are looking for. We surely want to invest in new products in the market, build our product portfolio and then sort of invest in a direct go-to-market model in the subset.

Having said this, there is a regulatory time frame around getting these product registrations in place and making that change in the go-to-market, which should happen somewhere in FY '25. And our aspiration is over the next three to four years, we would at least want to get to about $4 to $5 million of revenue from this subsidy.

Dhawal: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Shrikant from Asian Market Securities. Please go ahead.

Shrikant: Good afternoon. Thanks for the opportunity. Nikhil, can you please call out the facility utilization at the lozenges facility?

Nikhil Chopra: Sorry, I could not get that.

Kunal Khanna: So, on the lozenges capacity utilization, we can manufacture 18 crore lozenges. Currently we are manufacturing and packing close to 11 crore lozenges. From a packaging standpoint, we have a capacity which will in the next two months go up to close to 15 crore lozenges.

Shrikant: Okay. And because this year, we have done quite well in the lozenges business, I was wondering, if we need to add any more capability or capacity next fiscal year?

Kunal Khanna: So certainly our focus is on de-bottlenecking some of our packaging lines. That does not call for a significant investment. The efforts have already been put in there. So as we speak, as you know, mentioned that we'll be reaching 14 crore packaging capacity. That over the next 12 months also will be touching close to 18 to 20 crore lozenges.

Shrikant: Okay. And any guidance you would like to provide for the next fiscal on the lozenges business?

KunaL Khanna: Right now, we believe that, the CDMO business continues to grow healthy, double digit figures. Yes, last year there was a significant spurt, but we really see a very good, healthy order book situation. As Nikhil mentioned, we'll have to watch out for how the seasonal trends reflect over the next three months to four months to give you a firmer view of almost next 10 to 12 months.

But irrespective, this is a very important strategic area for us, quite easily it will, over the long term, continue to grow in healthy double digit range. And in the next 12 to 14 months itself, that's why we have taken the effort of almost taking our manufacturing and packaging capacity to almost 18 crore lozenges.

Shrikant Akolkar: All right. And on the domestic business, can you call out the acute chronic mix during this quarter?

Kunal Khanna: Acute was close to -- I'm just giving you a broad range, acute was closer to 44, 45 and the chronic was 54, 55.

Shrikant Akolkar: Okay. Because I was thinking that there has been lower chronic business has done well. So I was just wondering if there was any positive impact because chronic has done well. And at the same time, the acute has seen a slight dip in the contribution. So is that right assumption to make on this?

Nikhil Chopra: Yes. So overall, our I think, chronic contribution last year was close to 53% and that is what was I think what Kunal spoke was our chronic contribution should be close to 54%, 55% and acute contribution would be close to 45%.

Shrikant Akolkar: Understood. And last question. So in because we are putting a significant focus on the chronic business, so what will be our target in two to three years' time? Where do we see the acute chronic mix heading to?

Nikhil Chopra: These are so our contribution of chronic business, we want to take it to 60%.

Moderator: Thank you. Next question is from the line of Rahul from [Myostatin 0:52:29] Equities. Please go ahead.

Rahul: Yes. In the domestic business, apart from Sporlac, do you see any pricing big pricing differential between your brands and competition? And are there any efforts to narrow the sizing gap versus competition?

Kunal Khanna: Rahul, even if there is a pricing difference for all the schedule products, you cannot go beyond 10% range. So while there is a pricing difference for Sporlac, the maximum increase you can take from a price standpoint is not beyond 10%.

Rahul: Okay, sir. And apart from Sporlac, there are unsecure other brands would have a meaningful discount versus competition.

Kunal Khanna: So, apart from that, it's pretty much on parity with respect to our...

Rahul: And sir, some of your peers have called out the NLEM price cut impact the quarter. So did we also although, also our NLEM exposure has significantly come down to standard getting out of price control, but NLEM price cut impact our growth as well on the India business this quarter?

Kunal Khanna: There is a very marginal impact on Metrogyl, very-very marginal. Nothing to comment on.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Nikhil Chopra: So first of all, let me thank you, thank all of you for coming for the call today. And at least patiently listening to our commentary I'm more than happy we'll more than happy to at least take your questions and give the answers in the capacity that we could. Overall, once again, reiterating that our guidance going ahead for the next three quarters should be what we have spoken earlier is beating overall India pharma market performance by 300 bps to 400 bps. And that is what we could demonstrate in the month of July also. What I showed earlier, the INR figures that we have demonstrated for last four months and which it will continue.

Our entire focus within India would be how to continue to work on the theme of making big brands bigger, particularly in chronic part of the business and aspire to take that contribution to 60%, more than happy in terms of the portfolio that we have acquired and the new brands that we have built is only helping us to not improve our ranking and value, but also to also improve our ranking in prescriptions. That is what we fundamentally believe that how do you build your business, which is fundamentally strong. This was on India

International, the focus will continue to be on the CDMO business continuously working with our partners and equally looking at what opportunities we can explore in the BGX market. Also, as stated earlier, South Africa this year, the entire aspect of transformation of business, looking at how we can improve our contribution from private market will happen for a period of time.

So, international business growing at double digit, touching double-digit growth and India market beating IP up by 300 bps to 400 bps. And the margin guidance that we have stated earlier also will be between 25% to 27%. That is where we stand in the company and committed overall, not only in India but globality to deliver quality medicines, which comes from the house of JB. Thank you all once again for coming for today's conference call, and we'll continue to touch best with you in coming quarters. Thank you.

Moderator: Thank you very much. On behalf of J.B. Pharma, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.